

Committee on Transportation and Infrastructure

Aviation Subcommittee

Financial Condition of the Aviation Trust Fund:

Are Reforms Needed?

May 4, 2005

Testimony of Edward P. Faberman, Executive Director



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Mr. Chairman, I ask that my full comments be made part of the record for this hearing. Thank you.

Chairman Mica, Ranking Member Costello, Members of the Committee – It is a pleasure to appear before you today to discuss an issue that is critical to the continued economic growth of communities throughout our country and to the expansion of airline service by low-fare carriers – that issue is the future funding of the Airport and Airway Trust Fund. Mr. Chairman, we believe that changes must be made to the funding of the FAA. In making those changes, however, it is critical for the expansion of competition and for job and economic growth in communities throughout this country that we not discourage passengers from traveling.

Our goals for this review are to:

- Ensure plentiful, high quality, low cost air transportation;
- Minimize congestion-related delays both in air and on ground;
- Minimize transaction costs;
- Provide good long-term incentives for aviation financing, including the FAA budget and infrastructure improvements.
- Ensure all communities are fairly treated.

Taxes and fees added to fares that are stimulating traffic can increase those fares by 20% to 40%. Data clearly shows that large numbers of travelers will forego certain trips if fares – including taxes and fees – are increased by even 10%.

One of the comments we have heard is that due to lower fares, the government is not receiving the same quantity of fees and taxes as collected in the past. Let me present to you a different perspective on this point. With lower fares, business and leisure travelers have returned to the skies. They are taking multiple trips and traveling with others. Load factors are at record levels.

We are better off with a passenger taking five business trips at \$200 per roundtrip than if that passenger took one business trip at a \$750 fare. Lower fares also allow family members to accompany travelers and allow businesses to send multiple people to a meeting instead of one person. Therefore, a greater quantity of fees and taxes are paid as a result of the travel stimulated by the lower fares.

A larger problem impacting trust fund investment is the number of seats available on aircraft. For example, a 120 seat aircraft contributes significantly more to the federal government and airports through excise taxes, PFCs, and landing fees than a 50-seat jet.

Despite the horrific events of 9/11, new security procedures, and unexpected costs, we have witnessed a rebirth of the U.S. airline industry.

As a direct result of the expansion of competition, particularly from low-fare carriers, into new domestic markets, Americans are returning to the skies. As Secretary Mineta stated at the FAA Commercial Aviation Forecast Conference in Washington, D.C. on March 17, 2004:

...the combination of shifting demand for air travel, and the emergence of more low-fare airlines, has set the stage for major change in the airline industry... demand is still off, demand for low-fare service is strong and growing stronger. We think that the changes that are underway now are the kind of market-based, cost competition that the architects of deregulation thought would happen 25 years ago. Consumers are driving these changes – and that, ultimately, is a very healthy development.

Demand continues to grow. We are forecasting that more passengers will fly this year than did in the previous peak year of 2000. And we are looking ahead to more than one billion passengers by 2015.

But the domestic business travelers who would pay any price for a ticket – formerly the bread and butter for the major network carriers – have not returned, and probably never will.

Deregulation has delivered a dynamic industry, where consumers are driving change. Airline customers have more options, at lower fares, based on more timely information, than ever before – and our economy is better off as a result.

Additionally, in a speech on March 10, 2004 at the Commercial Club of Chicago, Secretary Mineta stated, “A healthy transportation sector is essential to President Bush’s efforts to keep America on track for a more prosperous future... Transportation has never been more important to America’s economic future than it is right now.”

American travelers in communities from throughout the country are searching for more affordable travel alternatives. The ability of low-fare carriers to offer price and service alternatives has increased demand for their services.

As I noted earlier, a major problem that is adding to congestion and delays is the increased use of regional jets. The DOT Inspector General's Report, "Airline Industry Metrics, Trends on Demand and Capacity" dated January 8, 2004, states that:

Delays at some Airports are increasing...some airports are beginning to experience increases over the past years...Chicago O'Hare reported 44, 230 arrival delays during the first 11 months of 2003...In some months, however, the number of delays was significantly greater. According to FAA, the problems at O'Hare stem from aggressive scheduling by the airlines as American has shifted many of its prior St. Louis connections to Chicago and United has responded competitively by scheduling head-to-head operations. FAA also attributes United's use of regional jets to match American's schedule with further reductions in airport capacity, as regional jets require greater separation times between operations than do larger jets.

Another significant development involves the phenomenal growth in RJ flights. Scheduled flights involving RJs increased 140 percent (from 88,474 to 212,126) between December 2000 and December 2003. Flights involving other aircraft types experienced far less growth or sharp declines, including piston (+10 percent), large jets (-19 percent), and turboprop (-41 percent). Overall, the portion of scheduled flights involving RJs has grown from 10 percent to 25 percent between December 2000 and December 2003.

RJs are also assuming a larger share of the total number of scheduled flights at the 31 largest airports. Those airports with the highest percentages of RJ flights as of December 2003 are: Cincinnati (72 percent), Dulles (44 percent), Chicago O'Hare (41 percent), Houston (39 percent), Newark (38 percent), St. Louis (36 percent), Dallas-Ft. Worth (35 percent), Salt Lake City (34 percent), LaGuardia (30 percent), and Reagan National (29 percent).

In the FAA NPRM on "Delay Reduction and Operating Limitations at Chicago O'Hare" (Docket No. FAA-2005-20704), the FAA addresses why O'Hare delays are worse than ever:

But by 2003, the two air carriers operating hubs at O'Hare, American Airlines ("American") and United Airlines ("United") had added a large number of operations and retimed other flights, resulting in congestion during peak hours of the day. From April 2000 through November 2003, American increased its scheduled operations at O'Hare between the hours of 12:00 p.m. and 7:59 p.m. by nearly 10.5 percent. Over the same period, United increased its scheduled operations at O'Hare by over 41 percent.

Overall, American and United added over 600 regional jet operations per day. The result was a decrease in seat capacity by each carrier at O'Hare of more than 5.5 percent from April 2000 to November 2003. In November 2003, more than 40 percent of American's and United's O'Hare flights were operated with regional jets, many to large and medium hubs. The significant increases in scheduled

operations during this time period resulted in excessive delays and congestion at O'Hare.

By November 2003, O'Hare had the worst on-time performance of any major airport. O'Hare arrivals were on time only 57 percent of the time, well below the FAA goal of 82 percent. Departures were little better. They were on time only 67 percent of the time, well below the average of 85 percent at other airports. These delays averaged about an hour in duration. Published schedules for February 2004 indicated that the problem would be exacerbated by the addition of even more flights.

The DOT Inspector General's report, "Airline Industry Metrics, Trends on Demand and Capacity," dated January 8, 2004, also demonstrated that the increased use of regional jets by American and United is creating the ATC problems at O'Hare. The report states that FAA officials have acknowledged that the reason delays are increasing in the Chicago area is due to the "growth in regional jets."

To this end, it is essential that all operators of aircraft pay their fair share of the costs they create for the FAA. At a time when we see projections of dramatic increases in "personal" jet usage, those operators, particularly when they are going to a congested airport and traveling through congested airspace, must contribute the same fees paid by carriers.¹ We believe it is critical for the FAA to establish standard costs for operating through airspace and at airports, and to determine whether those costs differ based upon the size of the aircraft involved.

Although low-fare high efficiency carriers have had reasonable financial results in the past few years, many of their costs continue to increase. These increasing costs include fuel, security, airport fees, and air traffic system congestion. Since you are aware of the impact that rising fuel costs have had on the industry, let me address other costs:

Security – In addition to the security fees charged on each ticket, carriers are routinely asked to pay for construction to add new security equipment at airports, (charges that TSA was supposed to pay for), additional security staffing, and costs for delayed or cancelled flights because of security problems.

Airports – At many airports, carriers have been hit with increased landing fees and facility costs to reimburse airports for their additional expenses, lower passenger numbers, and for security construction costs.

Air Traffic Control System – Due to the significant increase in smaller aircraft and general aviation aircraft operating in the system, ATC delays have increased in several parts of the country including southern Florida, Chicago, and

¹ USA Today, April 25, 2005, "On-Demand Airlines Could Alter Travel to Midsize Cities." There have been multiple stories about small jets (5-7 seats) being utilized to fly people to markets nationwide. The small jet operators include Dayjet and Pogo – that may operate hundreds of new aircraft.

New York. Smaller carriers have been hit particularly hard by delays and congestion, which also adds to their costs.

Fortunately, while many travelers and communities benefit from increased low-fare travel opportunities, true competition remains a dream in some markets because of increased costs of operation and barriers that continue to block entry and expansion. Costs of operation and congestion may limit expansion or entry for low-fare carriers.

The need to promote entry of new entrants into all markets was recognized as an essential part of deregulation. As Alfred Kahn noted:

The key to lower prices and improved efficiency is competition, and the key to competition is competitors... A downward zone, without entry, would not reliably produce lower prices, since the threat of entry – not charitable motives – is the only sure incentive for carriers to reduce their prices. And upward fare freedom – again, absent freedom of entry – poses an immediate threat of exploitation of consumers in all those markets where regulation under the present Act has failed to create competition. The proposed bill would make it easier for carriers to enter new markets in three important ways, and for that reason, more than any other, we support it.

Testimony of Alfred Kahn, Hearings before the Subcommittee on Aviation, House Committee on Public Works and Transportation on HR 11145 (Airline Regulatory and Reform Hearing), March 6, 1978

The Deregulation Act emphasized the importance of entry into all airports. Competition and new entry are the backbones of airline deregulation. In order for deregulation to continue and expand, we must adhere to the following:

- (10) Avoiding unreasonable industry concentration, excessive market domination, monopoly powers..., and
- (13) Encouraging entry into air transportation markets by new and existing air carriers and the continued strengthening of small air carriers to ensure a more effective and competitive airline industry. (49 U.S.C. §40101)

If a new entrant is advised that it will have to now pay higher fees to travel to and enter an airport that is already congested, because incumbent operators have flooded that airport with operations, it may avoid that airport. To maintain an open and competitive market place, prospective entrants must be provided with access on reasonable terms which will result in more competition, which in turn, results in lower average fares and better service for air travelers.

To allow entry and to ensure the future health and growth of the ATC system, we recommend that the following points be considered as part of any review of FAA and ATC funding issues:

1. Due to the enormous impact that commercial air service has on the nation's economy, the general fund must continue to help fund the ATC system;
2. All system operators' contributions must be based upon the costs they impose on the system. Therefore, whether a flight involves two passengers or 150, it should contribute the same amount in terms of fees and taxes;² and
3. A carrier or any operator that conducts a large number of operations at an airport and increases operations that create further delays and ATC problems, should be charged an additional amount to conduct those operations.

At the same time, the FAA needs to identify the specific actions that create or increase costs. Which costs should be applied to each operation and do costs vary with aircraft size or time of day of a specific operation? Do certain airports create higher costs to the system?

We need to move forward with this review but care must be taken not to block competitive opportunities or to establish yet another barrier to entry. Costs and airport facility problems have blocked new entrants from establishing competitive operations at numerous airports across the country.

Times are changing and to ensure that all travelers are able to seek competitive low fare service, all parties involved including the government, airports, and carriers must consider requirements to expand the joys of airline deregulation.

I thank you for again focusing on issues that impact true airline competition. We believe that all communities should be able to enjoy low-fare service. We look forward to working with you to make that a reality while at the same time expanding the nation's air traffic control system. The founders of deregulation would not have it any other way. I would be delighted to take any questions.

² Efficient prices are in principle equivalent to marginal cost. Marginal costs of airports and for the ACT system are not materially affected by (1) aircraft weight, (2) number of passengers, or (3) level of ticket prices.

Yet these three factors largely determine current price signals to airline users.

An efficient congestion minimizing pricing system will consider the real marginal costs imposed on the system, especially the time dimension.

For runways: Time = Distance and Speed

For ATC generally: Time = Distance and Speed

Altitude

Technology

Geography

